



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0220	Title:	Revising tax laws relating to income taxes, certain property, and energy
Primary Sponsor:	Elliott, Jim	Status:	As Amended in House Tax Committee

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|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$122,581	\$109,177	\$111,906	\$114,704
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$78,415,157)	(\$78,797,639)	(\$81,972,396)	(\$85,235,820)
State Special Revenue	\$0	\$9,000	(\$24,452)	(\$24,452)
Net Impact-General Fund Balance:	<u><u>(\$78,537,738)</u></u>	<u><u>(\$78,906,816)</u></u>	<u><u>(\$82,084,302)</u></u>	<u><u>(\$85,350,524)</u></u>

Description of fiscal Impact:

This bill consists of seven components:

- Sections 1-3 and sections 7-9 provide tax incentives for the development of renewable energy resources.
- Section 4 provides a tax exemption for transmission line impacts to adjacent property
- Sections 5 and 6 provide an income tax credit for residential property owners
- Section 10 exempts from property taxation items of personal property with a market value of less than \$100
- Sections 11 and 13 provide for an increase in the income tax exemption amount
- Section 12 provides an annual inflation adjustment on the itemized deductions limit for federal income taxes
- Section 14 establishes a 20-year partial tax abatement for coal produced for certain new technology facilities

FISCAL ANALYSIS

Assumptions:

Incentives for Energy Production Property and Partial Property Tax Abatement (Sections 1-3 and 7-9)

1. Sections 1 through 3 and 7 through 9 of this bill are intended to provide incentives for investments in certain types of property. If the bill is passed, these incentives will result in additional property being constructed and taxes being collected on property that would not exist without the incentives. Tax incentives may also result in lower taxes being paid on existing property or on new property that would have been constructed without the incentives. To avoid speculation about the effects of incentives on investment decisions, the fiscal analysis section of this fiscal note examines the effects of this bill only on property that is in the development process or can reasonably be interpreted as being included in the HJR 2 property tax revenue estimates. Potential impacts of additional property that might be constructed in response to incentives is discussed in the long-range impacts section.
2. Section 8 amends 15-6-157, MCA, to make *all* the following Class 14 property:
 - biodiesel production facilities
 - biogas production facilities
 - biomass gasification facilities
 - coal gasification facilities that sequester carbon dioxide
 - ethanol productions facilities
 - geothermal facilities
 - integrated gasification combined cycle facilities that sequester carbon dioxide
 - renewable energy manufacturing facilities
 - natural gas combined cycle facilities
 - equipment used to capture carbon dioxide for sequestration
 - electric transmission lines and pipelines that connect any of these facilities to an existing transmission or pipeline system and are used at least 90% to carry output from the facility, and
 - the portion of an electric transmission line carrying power from a Class 14 generation facility Class 14 property.
3. Under current law, electric transmission lines and pipelines are Class 9 property, which has a taxable value of 12% of market value.
4. Under current law, facilities used to generate electricity are Class 5 property if owned by a rural electric cooperative and Class 13 property otherwise. Class 13 property's taxable value is 6% of market value.
5. Under current law, land and buildings of any facilities not used to generate electricity, (other than electric transmission lines and pipelines), would be Class 4 property, which is taxed at 3.01% of market value. Equipment of these facilities would be Class 8 property, which is taxed at 3% of market value.
6. Section 2 would make property of these facilities, (other than integrated gasification combined cycle facilities), natural gas combined cycle facilities, and equipment used to capture carbon dioxide for sequestration eligible for an abatement of 50% of property taxes for up to four years of construction and the first 10 years of operation. To receive the abatement, a facility would need to begin construction after June 30, 2007 and pay the prevailing wages for heavy construction. Renewable and clean coal research and development equipment would need to be placed in service after June 30, 2007.
7. The first row of the following table shows the market value of new biodiesel and ethanol facilities identified by DEQ as likely to be built in the state through 2010. The HJR 2 property tax assumptions imply market value growth of almost \$2 billion per year in the combination of Classes 4 and 8. These projects, therefore, can reasonably be assumed to be included in the HJR 2 property tax projections. The second row shows the taxable value of these facilities under current law, assuming that 90% of the value is equipment in Class 8 and 10% is real estate in Class 4. The next three rows show expected state and local property taxes under current law. The next four rows show taxable value with all property of these

facilities in Class 14 and the resulting state and local property taxes with half of the taxes abated. The last three rows show the differences in state and local property taxes due to Sections 1 through 4.

Expected Facilities Changed From Class 8 and 4 to Class 14 and Given Abatement

		<u>2008</u>	<u>2009</u>	<u>2010</u>
	Market Value (\$ million)	0.100	367.900	368.010
	Taxable Value 90% Class 8 & 10% Class 4	0.003	11.041	11.044
Current Law	Tax (\$ million) on			
	State 95 mills (general fund)	0.000	1.049	1.049
	State 6 mills (university system)	0.000	0.066	0.066
	Local 364 mills (statewide rural average)	0.001	4.019	4.020
Proposed Law	Taxable Value 100% Class 5	0.003	11.037	11.040
	Tax (\$ million) with 50% abatement on			
Difference	State 95 mills (general fund)	0.000	0.524	0.524
	State 6 mills (university system)	0.000	0.033	0.033
	Local 364 mills (statewide rural average)	0.001	2.009	2.009
	Difference in Tax (\$ million)			
	State 95 mills (general fund)	0.000	-0.525	-0.525
	State 6 mills (university system)	0.000	-0.033	-0.033
	Local 364 mills (statewide rural average)	-0.001	-2.010	-2.011

8. No other types of facilities affected by Sections 2 and 8 of the bill are likely to be built before 2010.
9. The equipment in these facilities will be permanently attached to the structures, so that all property taxes on these facilities for tax year 2008 will be paid in FY 2009, and the same for following years. These changes in property taxation will reduce general fund revenue insignificantly in FY 2009 and \$525,000 in FY 2010 and FY 2011. They will reduce university system revenue insignificantly in FY 2009 and by \$33,000 in FY 2010 and FY 2011.
10. One electric transmission line that would be classified as Class 14 property is expected to be built in 2008. The market value of this line is expected to be approximately \$50.674 million (Draft Environmental Impact Statement for the Montana-Alberta Tie Ltd. 230-kV Transmission Line.) The HJR 2 property tax assumptions imply \$66.1 million in additional market value in Class 9 for 2008. Therefore, this project could reasonably be interpreted as being included in the HJR 2 projections. However, the developers of this project have stated that it will not be built in Montana if the line's taxable value is established at the 12% Class 9 taxable value rate. Assuming that this is true, this bill would result in an increase in taxable value in Class 14 of \$1.520 million (3% x \$50.674 million) beginning in 2008 and no change in Class 9. Beginning in FY 2009, this would result in increased revenue of \$144,000 per year (0.095 x \$1.520 million) to the general fund, \$9,000 per year (0.006 x \$1.520 million) to the university system, and \$553,000 to local governments and school districts (0.364 x \$1.520 million).

New Property Class 15

11. Under current law, pipelines that cross county lines and are operated as a system are Class 9 property with a taxable value at 12% of market value.
12. Section 9 creates a new class of property, Class 15. Class 15 property includes pipelines and equipment for carbon dioxide sequestration and pipelines with 100% of capacity dedicated to transporting methane or liquid fuels from a coal gasification, biodiesel production, biogas production, biomass gasification, or ethanol production facility. Class 15 property's taxable value will be 3% of market value.

13. No Class 15 property is expected to be constructed before 2010. Possible impacts of projects that may be constructed after 2010 are discussed in the long range impacts section.

Electrical Transmission Line (Section 4)

14. Section 4 of SB 220 would exempt some class 3 and class 10 property from taxation if the property is within 660 feet of a transmission line of design capacity exceeding 30 megavoltamperes (MVA) constructed following January 1, 2007. To earn the exemption, property owners must file with the Department of Revenue by March 1 in the tax year the exemption is sought. The exemption may apply to tax years following December 31, 2007.
15. One transmission line meeting the 30 MVA capacity constraint has a projected completion date between January 1, 2008 and March 1, 2010. This transmission line is the Montana Alberta Tie (Alberta Tie).
16. According to information released by Montana Alberta Tie, LTD., Montana line mileage is projected to be 120 miles, or 633,600 feet (120 miles X 5,280 feet per mile). Approximately 92% of this length, or 582,912 feet (633,600 X 92%) will pass through Class 3 agricultural property. The remainder will pass through state or federal land.
17. Proposed law exempts 660 feet of qualifying property on each side of the midpoint of a transmission easement. Total width of qualifying property is 1,320 feet along the line of easement (2 X 660 feet).
18. Total projected exempt acreage under proposed law is 17,664 acres ((582,912 feet X 1,320 feet) / 43,560 square feet per acre).
19. The projected exempt acreage has the following locations: approximate 9% in Cascade County; 7.5% in Chouteau County; 29% in Glacier County; 37.5% in Pondera County; and 17% in Teton County. Using these figures, projected construction of the Alberta Tie will increase exempt acreage by 1,590 acres in Cascade County (17,664 acres X 9%), 1,325 acres in Chouteau County (17,664 X 7.5%), 5,122 acres in Glacier County (17,664 X 29%), 6,624 acres in Pondera County (17,664 X 37.5%), and 3,003 acres in Teton County (17,664 X 17%).
20. For tax year 2006 the average taxable value of Class 3 property is \$3.68 per acre in Cascade County, \$4.34 per acre in Chouteau County, \$3.25 per acre in Glacier County, \$5.17 per acre in Pondera County, and \$4.29 per acre in Teton County.
21. The taxable value of property exempted under proposed law is \$5,851 in Cascade County (1,590 acres X \$3.68 per acre), \$5,751 in Chouteau County (1,325 acres X \$4.34 per acre), \$16,647 in Glacier County (5,122 acres X \$3.25 per acre), \$34,246 in Pondera County (6,624 acres X \$5.17 per acre), and \$12,883 in Teton County (3,003 acres X \$4.29 per acre).
22. The total taxable value of property exempted under proposed law is \$75,378 (\$5,851 + \$5,751 + \$16,647 + \$34,246 + \$12,883). Table 1 shows the estimated taxable value by county.

Table 1 Estimated TY 2006 Taxable Value of Property Exempted Under Proposed Law and Completion of the Alberta Tie				
County	Estimated Alberta Tie Mileage through Class 3 Property	Estimated Increase in Exempt Acreage	Estimated TY 2006 Average Taxable Value per Acre of Class 3 Property	Estimated TY 2006 Taxable Value of Exempted Class 3 Property
Cascade	9.94	1,590	\$ 3.68	\$ 5,851
Chouteau	8.28	1,325	4.34	5,751
Glacier	32.02	5,122	3.25	16,647
Pondera	41.40	6,624	5.17	34,246
Teton	18.77	3,003	4.29	12,883
Total	110.40	17,664		\$ 75,378

23. Under current and proposed law, there are 95 school equalization and 1.5 vocational-technical school general fund mills levied in Cascade County, and 95 general fund mills levied in Chouteau, Glacier, Pondera, and Teton counties. The weighted average general fund mill levy is 95.11 mills, with taxable values of affected properties used as weights.
24. Estimated FY 2007 general fund revenue from levies on property that will be exempt under proposed law is \$7,169 ($\$75,378 \times 95.11/1000$).
25. There are 6 university system state special revenue mills levied in all counties.
26. Estimated FY 2007 university state special revenue fund revenue from levies on property that will be exempt under proposed law and completion of the Alberta Tie is \$452 ($\$75,378 \times 6/1000$).
27. The weighted average rural mill levy (less state mills) in counties traversed by the projected Alberta Tie in tax year 2006 was 422.8 mills. Estimated FY 2007 revenue to local governments and schools from taxes levied on property that will be exempt under proposed law and completion of the Alberta Tie is \$31,870 ($\$75,378 \times 422.8/1000$).
28. Table 2 details estimated FY 2007 revenue from taxes levied on the tax year 2006 taxable value of property that will be exempt under proposed law and completion of the Alberta Tie.

Table 2
Estimated FY 2007 Current Law Revenue from Property Exempted Under HB 220
and Construction of the Montana Alberta Tie

County	Estimated TY 2006 Taxable Value in Proposed Exemptions	Estimated General Fund Revenue	Estimated University Six Mill Revenue	Estimated General Countywide Revenue	Estimated Countywide School Revenue	Estimated School District Revenue	Estimated Fire Levy and Other Revenue	Total Local Government and School District Revenue
Cascade	\$ 5,851	\$ 565	\$ 35	\$ 790	\$ 263	\$ 1,135	\$ 76	\$ 2,264
Chouteau	5,751	546	35	765	150	926	173	2,013
Glacier	16,647	1,581	100	3,096	666	3,046	100	6,908
Pondera	34,246	3,253	205	6,062	1,610	6,883	411	14,966
Teton	12,883	1,224	77	1,803	657	3,053	206	5,720
Total	\$ 75,378	\$ 7,169	\$ 452	\$ 12,516	\$ 3,345	\$ 15,044	\$ 966	\$ 31,870

29. The projected date for completion of the Alberta Tie is summer 2008. The fiscal note assumes all applications for exemptions will be filed by March 1, 2009, with the fiscal impacts of the property tax exemptions first occurring in FY 2010. The fiscal note assumes the fiscal impact will remain constant in FY 2010 and FY 2011.

Income Tax Credit for Primary Residential Property Owners (Section 5-6)

30. Section 5 provides for an income tax credit to Montana homeowners who pay property taxes on a primary residence. The credit is equal to five times the amount of the taxes determined from the state equalization mills (95 mills) applied to \$20,000 in value, beginning in tax year 2007.
31. There are 254,458 owner-occupied houses in Montana (2005 American Community Survey).
32. Based on workload estimates for the next four years, the Department of Revenue estimates that the number of primary residences will increase by 1% per year. Under current law, the residential property homestead exemption for tax year 2007 is 33.2% and the tax rate is 3.07%.

33. Section 5 (1)(b) provides for a relief multiple which is used to change the amount of total credit provided. Under current bill language, the multiplier is 5.
34. In tax year 2007, based on \$20,000 of market value, the estimated credit per eligible household is \$194.82 ($\$20,000 \times .668$ (homestead) $\times .0307$ (tax rate) $\times .095$ (state mills) $\times 5$ (multiplier)). Applying the 1% growth to total residences, the total credit amount is estimated as \$50,570,506 ($\$194.82 \times 254,458 \times 1.012$) in FY 2008.
35. Multiplying the credit by the projected number of residences, using a 34% homestead and 3.01% tax rate for FY 2009, the total credit amount is estimated as \$48,503,326 in FY 2009. The amount is less than the FY 2008 estimate due to the impact of the property phase-in, homestead exemption, and tax rate changes.
36. Assuming the homestead exemption and tax rate continued at tax year 2009 levels, and the multiplier remains constant at five, the total credit amount is estimated as \$48,988,359 in FY 2010 and \$49,478,243 in FY 2011.
37. Taxpayers who receive the credit and itemize deductions on their federal income tax returns will have smaller deductions for state income taxes. In addition, refunds that taxpayers receive because of this credit must be included in federal gross income for federal income tax. Both of these will increase federal income taxes. Taxpayers who pay more in federal income taxes because of the credit and claim an itemized deduction for federal taxes on their state income tax returns will pay less in state income tax. This fiscal note assumes this interaction has no significant effect on fiscal revenues.

Exemption for Personal Property of less than \$100 in Market Value (Section 10)

38. Based on tax year 2006 records from the department's property tax database, exempting from taxation of personal property would reduce the taxable value of class 8 property by \$7,089. The tax year 2006 total taxable value of class 8 is \$135,612,793; therefore, this small decrease would not significantly impact tax revenues of any taxing jurisdiction.

Increase in the Personal Exemption (Sections 11 and 13)

39. Section 11 provides for an increase in the personal exemption from the current law level of \$1,900 to \$2,560. The exemption would be adjusted for inflation each year as under current law.
40. The income tax revenue estimating program was run with the changes called for in this bill. Tax liability was reduced by \$27,308,651 in 2007, \$29,000,313 in 2008, \$30,343,867 in 2009, and \$32,059,408 in 2010. These reductions in tax liability will result in larger refunds and smaller payments with returns when taxpayers file their returns in the spring following each tax year. Thus, revenue will be reduced by these amounts in FY 2008 through FY 2011.

Inflation Adjustment for the Limit on Itemized Deductions (Section 12)

41. Section 12 amends 15-30-121(1)(b), MCA, to provide that the limit on itemized deductions for federal taxes be adjusted for inflation each year.
42. The income tax revenue forecasting model was modified to reflect this change and run with the HJR2 assumptions. Tax liability was reduced by \$1.029 million in 2008, \$1.813 million in 2009, \$2.656 million in 2010, and \$3.911 million in 2011.
43. In general, the fiscal year revenue impact of an ongoing change in income tax liability is 47.9% of the tax liability reduction for the calendar year ending in the middle of the fiscal year and 52.1% of the tax liability reduction for the calendar year beginning in the middle of the fiscal year (HJR 2). This would give general fund revenue reductions of \$0.536 million in FY 2008, \$1.438 million in FY 2009, \$2.252 million in FY 2010, and \$3.310 million in FY 2011.

Tax Incentive for Certain Coal Production (Section 14)

44. Proposed law establishes a 20-year, 50% reduction in the coal severance tax rate on increments of increased production for producers who send coal to facilities that sequester carbon dioxide produced at that facility. Proposed law defines carbon sequestration, but does not specify a threshold level for carbon capture. A coal producer could send increased production to a facility that sequesters a very small amount of carbon dioxide and still be eligible for the partial exemption. Because the development of carbon sequestration technologies and their resulting use by coal producers is unpredictable and uncertain, the department cannot estimate the impact of carbon sequestration. Long-term revenues and expenditures are likely to be significant.
45. Proposed law reduces the coal severance tax rate by one-half on the first 20 years of “increased production” from a new mine if at least 50% of the production is used in either a coal gasification facility or an integrated gasification combined cycle facility that sequesters carbon dioxide.
46. Proposed law reduces the coal severance tax rate by one-half on the first 20 years of new production from an existing mine if the production is used in either a coal gasification facility or an integrated gasification combined cycle facility that sequesters carbon dioxide. New production is defined to be production in excess of the average production of the mine in the previous three years.
47. Proposed law is effective January 1, 2008; and applies to production after December 31, 2007.
48. The projected number of Montana producers qualifying for exemption is zero through June 2011.
49. The projected fiscal impact of proposed law in FY 2008 through FY 2011 is zero.

Department of Revenue Costs

Electrical Transmission Line (Section 4)

50. Under proposed law, Department of Revenue will require \$2,500 in FY 2008 for development of a form. The form is an application for exemption from property taxation.

Property Tax Credit and Increased Personal Exemption (Sections 5, 6, 11, and 13)

51. The Department anticipates needing two full-time auditors to review the approximately 200,000 claimed returns with the credit provided in this bill. The total cost for these two positions is \$120,081 in FY 2008, \$109,177 in FY 2009, \$111,906 in FY 2010, \$114,704 in FY 2011.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
FTE				
Income Tax Credit	2.00	2.00	2.00	2.00
<u>Expenditures:</u>				
Personal Services				
Income Tax Credit	\$108,261	\$109,177	\$111,906	\$114,704
Operating Expenses				
Form Creation	\$2,500	\$0	\$0	\$0
Equipment				
Income Tax Credit	\$11,800	\$0	\$0	\$0
TOTAL Expenditures	<u>\$122,561</u>	<u>\$109,177</u>	<u>\$111,906</u>	<u>\$114,704</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$122,581	\$109,177	\$111,906	\$114,704
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$122,581</u>	<u>\$109,177</u>	<u>\$111,906</u>	<u>\$114,704</u>
<u>Revenues:</u>				
General Fund (01)				
Income Tax Credit and Exemption	(\$77,879,157)	(\$77,503,639)	(\$79,332,227)	(\$81,537,651)
Transmission Line Exemption	\$0	\$0	(\$7,169)	(\$7,169)
Energy Production	\$0	\$0	(\$525,000)	(\$525,000)
Energy Production	\$0	\$144,000	\$144,000	\$144,000
Inflation of Deduction	(\$536,000)	(\$1,438,000)	(\$2,252,000)	(\$3,310,000)
Total General Fund	<u>(\$78,415,157)</u>	<u>(\$78,797,639)</u>	<u>(\$81,972,396)</u>	<u>(\$85,235,820)</u>
State Special Revenue - University System				
Energy Production			(\$33,000)	(\$33,000)
Transmission Line Exemption		\$0	(\$452)	(\$452)
Transmission Line Exemption	\$0	\$9,000	\$9,000	\$9,000
Total State Special Revenue	<u>\$0</u>	<u>\$9,000</u>	<u>(\$24,452)</u>	<u>(\$24,452)</u>
TOTAL Revenues	<u>(\$78,415,157)</u>	<u>(\$78,788,639)</u>	<u>(\$81,996,848)</u>	<u>(\$85,260,272)</u>

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$78,537,738)	(\$78,906,816)	(\$82,084,302)	(\$85,350,524)
State Special Revenue (02)	\$0	\$9,000	(\$24,452)	(\$24,452)

Effect on County or Other Local Revenues or Expenditures:**Energy Production (Sections 1-3 and 7-9)**

- Beginning in FY 2009, the anticipated Class 14 electric transmission line project is expected to increase tax revenues local governments and school districts by \$553,000 (0.364 x \$1.520 million) annually.

Electrical Transmission Line (Section 4)

- Proposed law revenue loss to local governments and school districts is projected to be \$31,870 each year in FY 2010 and FY 2011.

Tax Incentive for Certain Coal Production (Section 14)

3. Coal severance taxes are distributed 5.46% to a state special revenue account to provide basic library services for residents of all counties, and to provide for the participation costs of regional and national networking, conservation districts, and the Montana Growth Through Agriculture Act.
4. Coal severance taxes are distributed 2.90% to the oil, gas, and coal natural resource state special revenue account established in 90-6-1001, MCA. Under current practice, the legislature appropriates this money to the Coal Board to fund grants to local government units, state agencies, and federally recognized Indian tribes.

Long-Range Impacts:

Energy Production Incentives (Sections 1-3, and 7-9)

1. Some energy projects whose property taxes are affected by this bill are almost certain to be built in Montana in the future. Electricity transmission projects with combined cost of about \$1 billion are being considered for 2011. Various coal conversion projects with costs between \$600 million and \$1 billion each are being considered. How this bill affects taxes on a particular project depends on whether it would be built without the incentives in this bill. If the project would be built without the incentives, this bill would reduce revenues below what they would have been without it. If the project would not be built without the incentives, this bill would increase revenues beyond what they would have been.
2. The following tables show the property taxes on a \$1 billion electricity transmission project and a \$1 billion coal conversion project under current law and under this bill.

Taxes from Hypothetical \$1 Billion Transmission Project
(\$ million)

	<u>Tax Rate</u>	<u>Taxable Value</u>	<u>State 95 mills</u>	<u>State 6 mills</u>	<u>Local 364 mills</u>
Current Law - Class 9	12%	\$120.00	\$11.40	\$0.72	\$43.68
SB 220 - Class 15	3%	\$30.00	\$2.85	\$0.18	\$10.92

Taxes From Hypothetical \$1 Billion Coal Conversion Project
(\$ million)

	<u>Tax Rate</u>	<u>Taxable Value</u>	<u>State 95 mills</u>	<u>State 6 mills</u>	<u>Local 364 mills</u>
Current Law	3%	\$30.00	\$2.85	\$0.18	\$10.92
SB 220 50% Abatement	3%	\$30.00	\$1.43	\$0.09	\$5.46

3. The following table shows the impacts of SB 220 on state and local property taxes if these projects *would not* be built without the incentives in this bill.

Revenue Impact if Projects Would Not Be Built Without Incentives
(\$ million)

	<u>State 95 mills</u>	<u>State 6 mills</u>	<u>Local 364 mills</u>
Transmission Project - Class 15	\$2.85	\$0.18	\$10.92
Coal Conversion Project - 50% Abatement	\$1.43	\$0.09	\$5.46

4. This table shows the impacts of SB 220 on state and local property taxes if these projects *would* be built without the incentives in this bill.

Revenue Impact if Projects Would Be Built Without Incentives
(\$ million)

	State 95 mills	State 6 mills	Local 364 mills
Transmission Project - Class 15	(\$8.55)	(\$0.54)	(\$32.76)
Coal Conversion Project - 50% Abatement	(\$1.43)	(\$0.09)	(\$5.46)

Electrical Transmission Line (Section 4)

5. TransCanada's NorthernLights initiative proposes a 3,000 MW transmission line running from Montana to Las Vegas. The route is currently undefined. The line will not be operational before late 2012.
6. Wind Hunter LLC proposes a wind energy development package in Valley County. Part of the package is a 69 kilovolt transmission line that would meet the capacity requirements of proposed law, and would total about 30 miles. This line might be built as soon as 2008, but projected completion is uncertain at this time.

Income Tax Credit for Primary Residential Property Owners (Section 5-6)

7. The credit provided in this bill will continue to have significant effects on the general fund should it continue beyond the current biennium. The impact will also depend on the multiplier used in determining the total amount.

Technical Notes:

Income Tax Credit for Primary Residential Property Owners (Section 5-6)

1. It may be helpful to add language to simplify the calculation by removing the homestead exemption since it varies from year to year. This could be done by changing the reference in Section 1 from market to reappraisal value and adding a subsection (a)(i) with the following language "to determine the amount of property taxes imposed, the \$20,000 reappraisal value is multiplied by the class 4 tax rate under 15-6-134. The resulting value is multiplied by the mill levies imposed under 20-9-331, 20-9-333, and 20-9-360".

Tax Incentive for Certain Coal Production

2. Proposed law does not specify a measurable threshold quantity of carbon capture that a coal gasification facility or an integrated gasification combined cycle facility must exceed in order for a contributing coal producer to be eligible for an exemption.
3. Administration of proposed law as written would be difficult.
4. Proposed law does not clearly specify which agency will be responsible for ensuring that coal processing facilities meet the sequestration requirements and that coal from Montana producers is used in these facilities. Future administrative expenditures to the Department of Revenue might be significant if extensive compliance efforts will be required to implement the bill.
5. The coal severance tax is paid quarterly. Proposed law would be easier to implement if the exemptions were defined within a quarterly frame of reference.
6. Subsection 14 (4)(a)(i) states that the first 20 years of increased production from a new mine will be partially exempt from tax "if at least 50% of the production of the coal produced by the mine" is used in conforming facilities.
- "Increased production" is not defined.
 - "New mine" is not defined.

- The meaning of “the production of the coal produced by the mine” is not clear.

7. Subsection 14 (4)(d)(ii) states:

“The exemptions under subsections 14 (4)(a)(i) and 14 (4)(a)(ii) continue for the full 20-year term if the number of tons of production necessary to qualify for the exemption in the first year do not decrease.”

The meaning of this statement is not clear. Difficulties include:

- Exemptions are granted quarterly or annually, and refer to an exempt quantity of production. Is an exemption granted in the first quarter or year to continue for 20 years, referring in each succeeding instance to the same quantity of coal that was exempt in the first instance?
- Does “number of tons of production” refer to the number of tons of production that are used by acceptable facilities, to the increase in production over an average of previous production, or to the total number of tons of production?
- If the requirements in subsection 14 (4)(a)(i) and subsection 14 (4)(a)(ii) are satisfied in any given quarter, but the requirement in subsection 14 (4)(d)(ii) is not satisfied, will the coal producer qualify for an exemption in that quarter? If not, then why is this constraint neither specified nor referred to in subsection 14 (4)(a)(i) and subsection 14 (4)(a)(ii)?

8. How will a taxpayer know that coal they sold to a conforming facility is actually being used by that facility? For instance, a conforming facility might buy coal at a discount from a mine seeking an exemption, and resell the coal at a profit to a non-conforming facility. How would the state monitor these transactions for audit purposes?

9. “Next fiscal quarter” in subsection 14 (4)(d)(i) is not defined.

Sponsor’s Initials

Date

Budget Director’s Initials

Date